

## CareEdge Global reaffirms rating of Varthana Finance Private Limited at 'CareEdge B-/Stable'

**USD 79 million External Commercial Borrowing Bonds**

**CareEdge B-/Stable (Reaffirmed)**

CareEdge Global has reaffirmed its foreign currency long-term rating of '**CareEdge B-/Stable**' to External Commercial Borrowing (ECB) Bonds of Varthana Finance Private Limited (Varthana).

### Rating Rationale

The rating is primarily driven by established track record of promoters in the school finance sector and a comfortable capitalisation position. These credit strengths are, however, partially offset by a limited resource profile, low profitability, and modest asset quality metrics (especially in the student loan segment).

Varthana's Asset Under Management (AUM) dipped slightly to Rs 1,891 crore (USD 210 million<sup>1</sup>) as of September 30, 2025, from Rs 1,897 crore (USD 211 million) as of March 31, 2025. The company reported a net profit of Rs 3 crore (USD 0.3 million) for six months ending September 30, 2025, compared to profit of Rs 5 crore (USD 0.6 million) for the same period in the last fiscal year [Rs 24 crore (USD 3 million) in FY25], primarily owing to losses in the student loan portfolio. The company's borrowing level at Rs 1,665 Crore (USD 185 million) as of September 30, 2025, broadly unchanged from Rs 1,615 crore (USD 180 million) as of March 31, 2025, leading to gearing of 3.2x as of September 30, 2025, versus 3.2x as of March 31, 2025, which includes the off- book portfolio [direct assignment of ~Rs 106 crore (USD 12 million)]. School-loan segment and student loan segments constitute about 86% and 14%, respectively, of AUM as on September 30, 2025. The share of student loan segment is expected to dip further as the management has decided to run down the portfolio in this segment and have stopped new disbursements. The focus would be on growth of School finance segment.

### Key Rating Drivers

#### Strengths

##### Established track record of promoters in the school finance sector

The founders, Mr. Steve Hardgrave and Mr. Brijesh Mishra, have significant experience in the space of education financing. The promoters are supported by an experienced management team having relevant exposure in the financial services industry.

<sup>1</sup> Conversion of 1 USD = INR 90 is used in this file

Varthana is primarily involved in financing education institution loans, mainly to affordable private schools, and has established a track record of more than a decade in the segment. These are primarily collateral-backed loans offered to private educational institutions (generally K-12 schools) for brownfield expansion and their working capital requirements. Varthan's business risk profile will continue to benefit from its established track record in school finance sector and promoter's experience.

While the company also launched student loan financing in June 2018 to students seeking upskilling or test preparation coaching, the management has recently decided to completely exit this segment owing to high operating and credit costs.

### **Comfortable capitalisation level**

Varthana's capitalisation profile is comfortable with an overall capital adequacy ratio of 27.2% as of September 30, 2025, which remains well above the regulatory threshold. The strong capital base provides financial flexibility, enhances the company's risk-bearing capacity, and supports its ability to absorb shocks during economic stress. Varthana's tangible net worth stood at Rs 534 crore (USD 62 million) as of September 30, 2025, compared to Rs 528 crore (USD 59 million) as of March 31, 2025, supported by equity raise at regular intervals. The company has large and diversified institutional investors, including Chryscapital, Lightrock, Kaizen Private Equity, Omidyar Network, Elevar Equity, Blue Haven and Potencia Ventures, on its cap table.

Gearing was maintained at 3.1x as of September 30, 2025, compared to 3.2x as of March 31, 2025, since borrowings stood at similar level during this period. CareEdge Global expects that, with its planned growth trajectory, the company will maintain a buffer of approximately 5-7% above the regulatory capitalisation requirements (currently over 12%), assuming any required equity infusion as seen in the past. The gearing level is expected to remain in the range of 3 to 3.5x over the medium term.

### **Weaknesses**

#### **Cost of borrowing remains high despite diversification in the resource profile**

Varthana continues to rely significantly on non-banking financial institutions (NBFI) for its debt requirements, though this dependence has gradually reduced. As of September 30, 2025, borrowing from NBFI reduced to ~43% of the total debt from ~56% as of March 31, 2025. Typically, these loans are at relatively high cost compared to other financing sources, adversely impacting the company's profitability. Varthana's overall cost of funds stood at 12.2% as of September 30, 2025, compared to 12.5% as of March 31, 2025.

Varthana intends to improve its borrowing cost by optimising its borrowing profile and increasing the amount of financing from banks, NCDs and international debt issuances. Further reduction in the NBFI borrowings is expected, though a large portion of current borrowings are from NBFI. Banking exposure stands at 17% of total borrowings as of

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September 30, 2025, compared to 11% on March 31, 2025, which is expected to further increase in FY27.

### **Low profitability and modest asset quality**

The company's low profitability is attributable to moderate spreads of (5-6%) and high operating expenses. The company has taken several steps to improve profitability in FY26. These measures include reduction in borrowing costs, phasing out of student loan book (from H2FY26), which will help bring down the operating and credit costs. The student loan portfolio is expected to run down by FY27 and the same will be reflected in the numbers.. Profit after tax in H1FY26 stands at Rs 3 crore (In the interim, owing to high credit costs in student loan segment, Varthana's return on assets (RoA) dropped to 0.3% in H1FY26, compared to 0.7% in H1FY25 (1.2% in FY25) resulting in return on equity (RoE) to be maintained at 1% as on September 30, 2025, compared to the same period in the previous year (4.6% in FY25). Historically, Varthana's performance mirrors that of school business cycle and factoring the seasonality second half of the fiscal performance is always better than the first half. A sustained improvement in profitability is a key rating sensitivity factor.

Varthana has high operating expenses in the student loan segment, which also adversely impacts profitability. However, with planned closure of this segment, operating expenses are expected to be reduced, leading to improvement in profitability going forward.

Varthana's school loan segment is exposed to small and mid-sized educational institutions, which often experience cash flow variability due to the seasonality of the academic cycle. Varthana experienced a significant deterioration in asset quality during the Covid-19 pandemic, due to the government-mandated closure of schools, which led to irregular fee collection. Varthana has strengthened collections efforts to improve its asset quality, reduce bad debt and non-performing assets (NPAs). As a result, over the last two fiscals, gross NPA (GNPA) decreased to 1.9% as of March 31, 2025, from 8.4% on March 31, 2024. Furthermore, Varthana has shown good recovery from loans written off in the past. Increase in GNPA to 2.5% as on September 30, 2025, was owing to sharp rise in NPAs in student loan segment.

As Varthana intends to reduce its student loan segment (unsecured) going forward, the asset quality metrics are expected to improve over the medium term. The AUM in student loan segment stands at Rs 282 crore (USD 31 million) as of September 30, 2025. The credit costs in this segment were Rs 19 crore (USD 2 million) against the total credit cost of Rs 24 crore (USD 3 million) for H1FY26. As a result, profit before tax of Rs 21.3 crore (USD 2.4 million) in school loan portfolio was offset by losses of Rs 18 crore (USD 2 million) in the student loans segment.

### **Liquidity**

Varthana's liquidity profile is moderate. The company has no negative cumulative mismatches in the up-to-one-year bucket. However, negative cumulative mismatches exist in more than

one year's time bucket. The mismatch is due to the higher tenor of school loan financing, with an average tenor of 5.5 years, while borrowings have an average tenor of 2 years. The mismatch is expected to continue for some time considering an increase in the proportion of school loans with reduction in the student loan portfolio. However, Varthana keeps adequate liquidity (three months of repayments and operating expenses) through on-balance sheet liquidity and undrawn bank lines. As of December 26, 2025, the company had cash, cash equivalents and liquid investments standing at Rs 266 crore (USD 30 million) compared to Rs 277 crore (USD 31 million) as of September 30, 2025 [FY25: Rs 328 crore (USD 36 million)].

### **Outlook: Stable**

The stable rating outlook reflects CareEdge Global's expectation that Varthana will maintain comfortable capitalisation levels while reporting moderate growth in scale of operations over the medium term.

### **Rating Sensitivities**

#### **Upward factors**

- Significant increase in its scale of operations while improving profitability and overall gearing level below 3.5x
- Improvement and sustenance in asset quality

#### **Downward factors**

- Deterioration in capitalisation profile on a sustained basis
- Deterioration in liquidity profile
- Significant deterioration in asset quality

### **Environmental, Social and Governance (ESG) considerations**

CareEdge Global observes that Varthana primarily engages in lending to businesses operating in semi-urban areas, actively promoting sustainable practices among its borrowers. This includes encouraging the efficient use of natural resources such as water and raw materials, alongside fostering initiatives for recycling and reuse, aligning with broader environmental sustainability goals.

From a social perspective, the company addresses critical social risks by providing funding to institutions involved in quality education for children. This approach empowers affordable schools in India by providing crucial financial support, helping them expand and improve educational opportunities for low-income students.

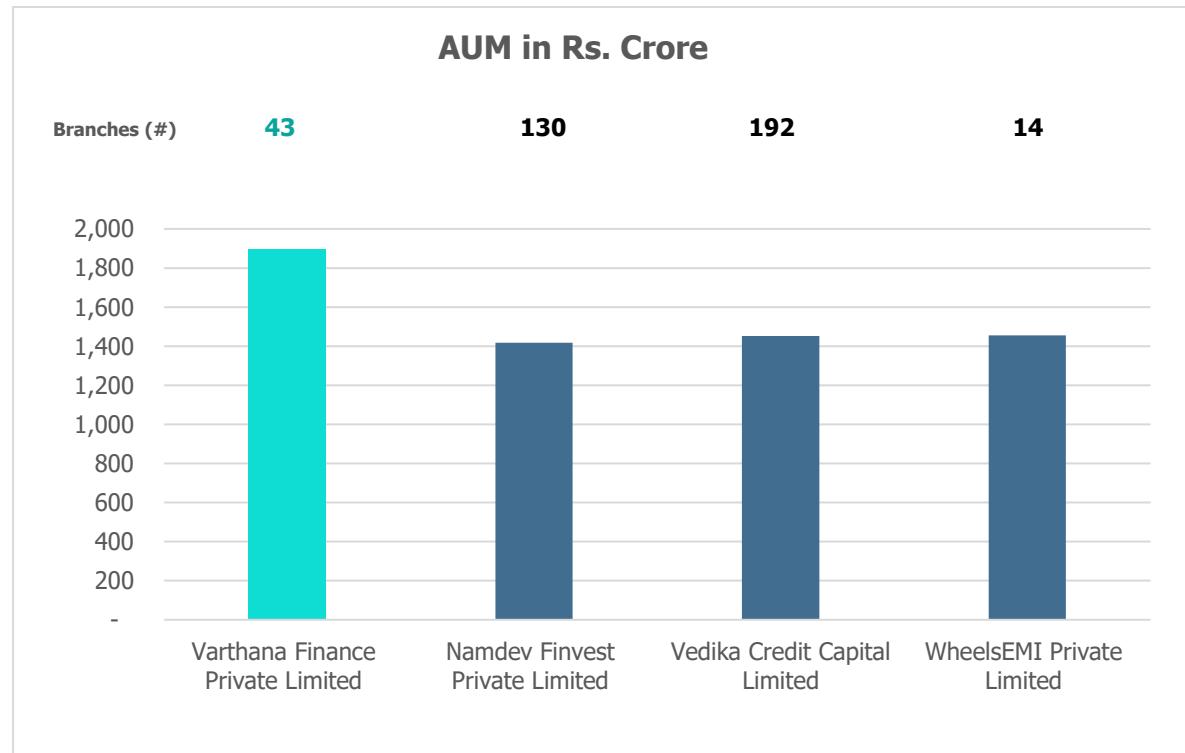
On the governance front, the company demonstrates reasonable governance practices, with mix of independent and investor directors in board composition and coupled with regular board meetings and quarterly audit practices.

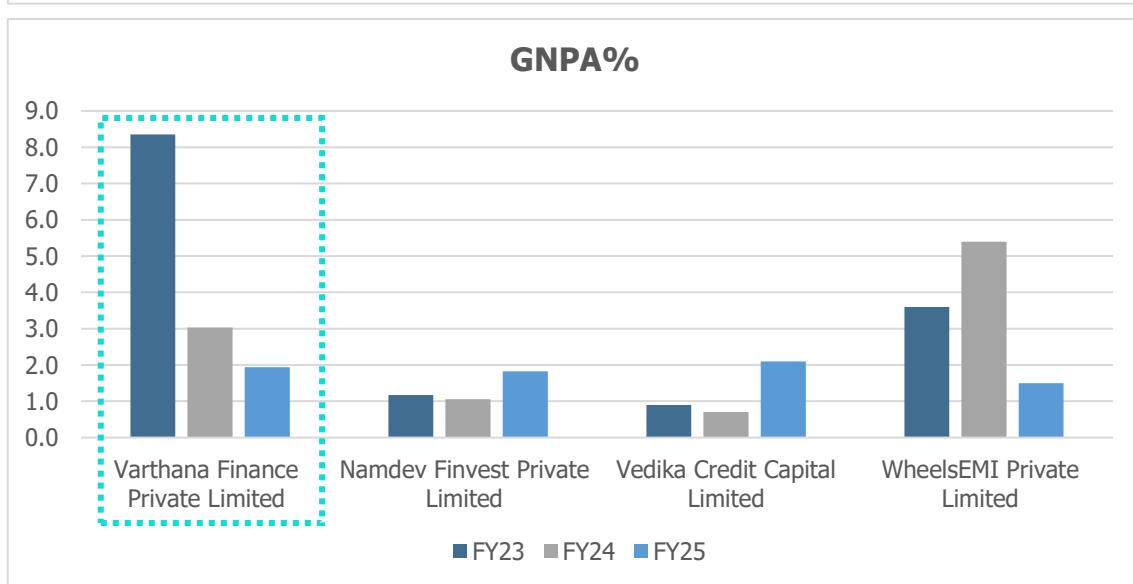
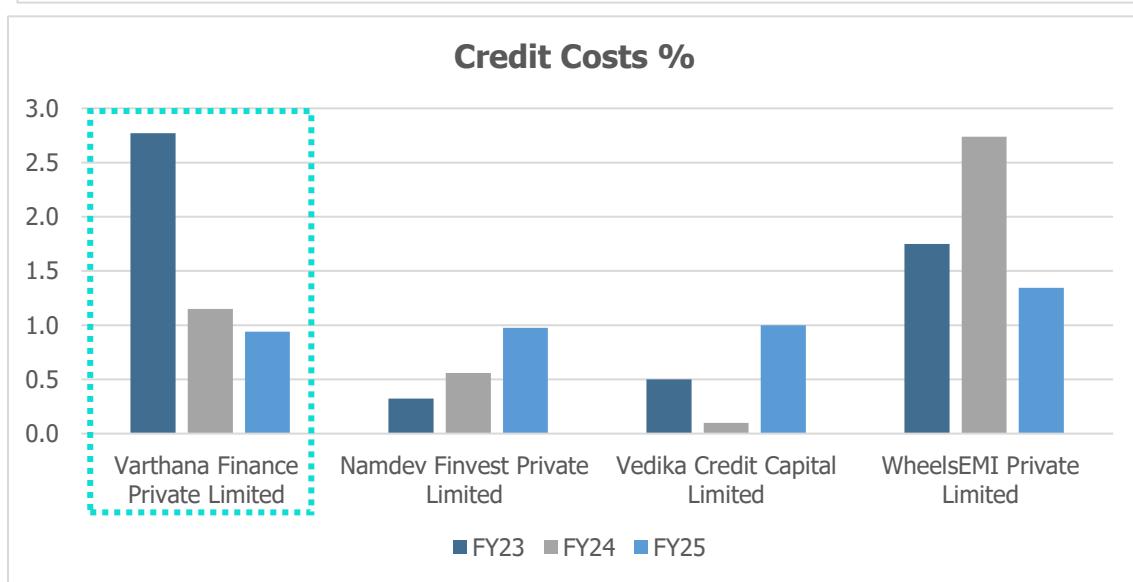
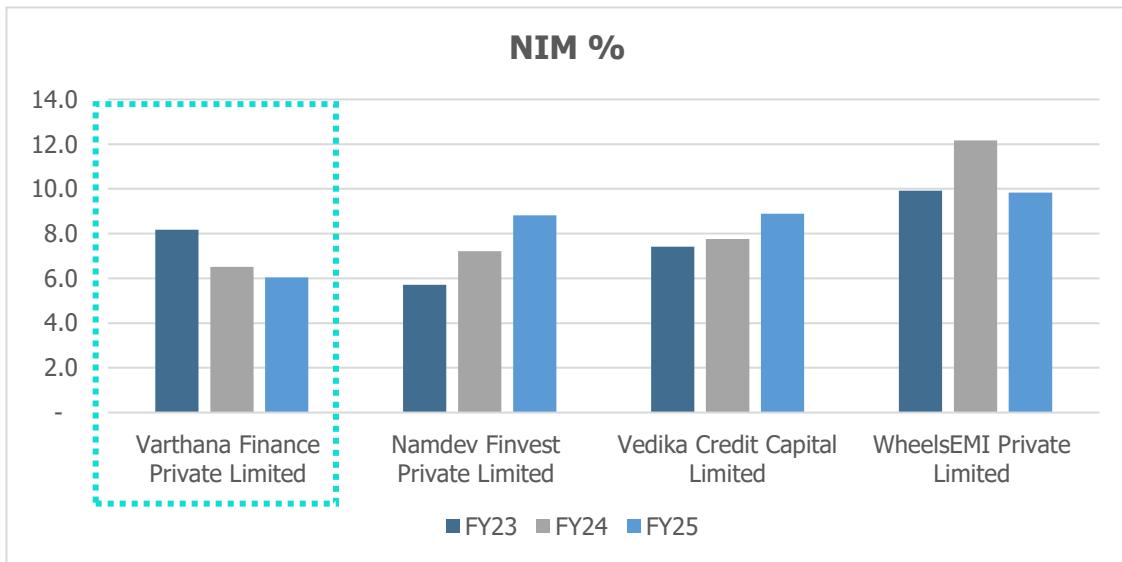
## About the company

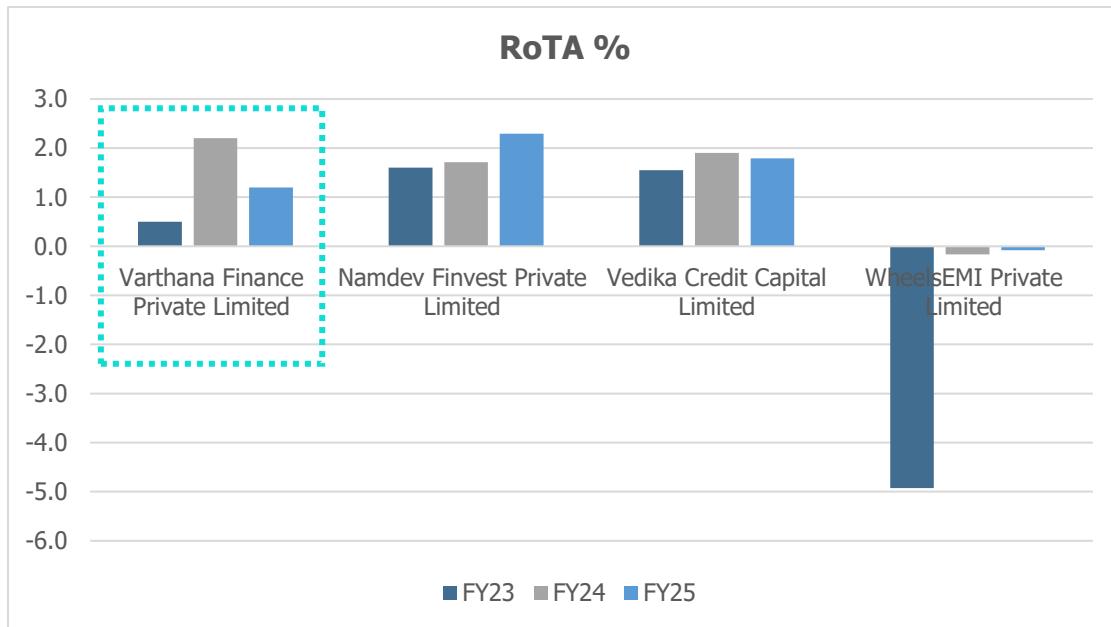
Varthana Finance Private Limited is a non-deposit accepting non-banking financial institution (NBFI) headquartered in Bengaluru. It was founded by Steven Edwin Hardgrave and Brajesh Mishra, who have extensive experience in education financing. Varthana started operations after its promoters acquired an erstwhile NBFI, Thirumeni Finance Private Limited, in May 2012. School financing operations under the brand Varthana were started in January 2013. The company is financing private schools for improvement, capacity expansion and growth requirements. These loans have an average ticket size of Rs 30 lakhs with an average tenure of 7 years. Further, the company also launched student loan financing in June 2018. The average ticket size of student loans is Rs 1.1 lakhs with a tenure of 1.5 years.

As of March 31, 2025, Varthana's operations were spread across 15 states with a network of 41 branches and AUM of around Rs 1,900 crore. AUM growth has been aided by growth in the school financing portfolio, which forms 85% of the total AUM, while student loans contribute the rest. Currently, the contribution of personal loans to the overall AUM is negligible. The company has been raising equity capital from private equity investors and major shareholders, apart from the founders. The company has raised Rs 453 crore of equity from the founders and various institutional investors. Varthana's institutional investors are Chryscapital, Lightrock, Kaizen Private Equity, Omidyar Network, Elevar Equity, Blue Haven and Potencia Ventures.

## Comparison with other NBFCs







### Recent updates and financial summary

Varthana reported a net profit of Rs 3 crore for six months ending September 30, 2025, compared to profit of Rs 5 crore for the same period in the last fiscal year (FY25: Rs 24 crore and FY24: Rs 31 crore), reflecting the impact of elevated credit costs in the student-loan portfolio.

As of September 30, 2025, Varthana's AUM stood at Rs 1,891 crore, up from Rs 1,526 crore as of September 30, 2024, (FY25: Rs 1,897 crore and FY24: Rs 1,281 crore). The growth was driven primarily by increase in the secured school loan segment, even as the company strategically curtailed disbursements in student loans.

The company reported GNPA and NNPA of 2.5% and 1.4%, respectively, in H1FY26, compared to 2.9 and 1.7% in H1FY25 (FY25: 1.9% and 0.9% and FY24: 8.4% and 5.9%), the rise from FY25 driven largely by fresh slippages in the student-loan portfolio during H1FY26.

### Key Summary Financial Metrics

Particulars	Unit	March 31, 2023	March 31, 2024	March 31, 2025
AUM	Rs crore	938	1,281	1,897
Net Interest Margin	%	8.3	6.4	5.8
Cost to Income	%	67.9	49.9	68.9
GNPA	%	12.1	8.4	1.9
Return on Assets	%	0.5	2.2	1.2
CAR	%	57.1	41.1	28.5

### Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

### Details of Instruments

	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size	Rating
<b>External Commercial Borrowing (proposed)</b>		-	-	-	USD 52 million	CareEdge B-/Stable
<b>External Commercial Borrowing</b>	INIFD0905023	November 24, 2024	450 basis points plus Term SOFR2	November 27, 2028	USD 15 million	CareEdge B-/Stable
<b>External Commercial Borrowing</b>	INIFD0905031	January 21, 2025	450 basis points plus Term SOFR	December 27, 2027	USD 12 million	CareEdge B-/Stable

### Rating History

Instrument	Type	Rating	Date
<b>External Commercial Borrowing Bonds</b>	Long-Term Foreign Currency (Solicited)	CareEdge B-/Stable (Reaffirmed)	January 09, 2026
<b>External Commercial Borrowing Bonds</b>	Long-Term Foreign Currency (Solicited)	CareEdge B-/Stable (Reaffirmed)	June 05, 2025
<b>External Commercial Borrowing Bonds</b>	Long-Term Foreign Currency (Solicited)	CareEdge B-/Stable (Assigned)	December 24, 2024

### Criteria Applied

[CareEdge Global's Rating Methodology for Financial Institutions](#)

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<sup>2</sup> Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by treasury securities

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